

## **FINANCE COMMITTEE**

### **Fiscal Year 2014**

The Finance Committee advises the Town on matters affecting Town finances and makes transfers from the Reserve Fund to cover extraordinary or unforeseen expenses. The primary focus of the Committee's responsibility and work consists of adopting guidelines for managing the Town's money and recommending a comprehensive budget consistent with those guidelines to the Annual Town Meeting. In doing so, we consider recent-year trends, projections for the next few years, and prudent financial management practices. The Committee oversees the formulation and implementation of sound financial management policies. The Committee also advises Town Meeting about articles having financial implications.

The Finance Committee's recommended preliminary budget guidelines are presented in the fall to the Town Manager, Superintendent of Schools, and Library Director to provide them with information on the level of resources expected to be available for spending on operating and capital budgets in the next fiscal year. As we develop the guidelines, we consider the revenue expected from taxation, state aid including Chapter 70 education funds, and other sources. We also consider projections for revenue and expenses in future years, longer-term financial demands on the Town, and the need to maintain appropriate levels of reserves in the form of Free Cash and the Stabilization Fund. The guidelines are developed from the Finance Director's projections of revenues and spending for the previous, current, and next three to five fiscal years.

Changes to the guidelines sometimes occur as new information about funding sources and service needs becomes available during the budget process. Such changes might be to the amount of available resources and/or particular needs to support municipal services, elementary schools, regional schools and library services, and/or the capital budget. The Committee may change the recommended proportion of the total going to these different sections of the overall Town operating budget..

We get advice throughout the budget process from other boards and committees, staff, and the general public, including the Budget Coordinating Group and the Joint Capital Planning Committee. Two Finance Committee members serve on Budget Coordinating Group, two on the Joint Capital Planning Committee, and one on the Audit Committee. Committee members are also designated as liaisons to the Select Board, School Committees, and Library Trustees to facilitate a coordinated budget process and understand the challenges and needs of all Town programs and services.

#### **Fiscal year 2015 Guidelines and Budget**

The development of the FY 15 budget began in October 2013 with financial projections from Finance Director Sanford Pooler. Mr. Pooler projected a 3.1% revenue increase for FY 15. Our preliminary guidelines asked for operating budgets from the Town Manager and the elementary schools that would increase by 2.7% from current year (FY 14) levels and, from the libraries and Amherst Pelham Regional School district, budgets consistent with a 2.7% increase in Amherst's financial support. In addition, the guidelines proposed capital expenditures totaling 7.0% of the property tax levy. When the preliminary guidelines were developed, we projected that the budget would be balanced without use of Free Cash or Stabilization Funds.

The budget that the Committee proposed, and that the 2014 Annual Town Meeting adopted, differed from the preliminary guidelines in several ways. First, Article 21 transferred \$125,000 from Free Cash for Social Services activities; due to the last-minute breakdown in what had been expected to be a

successful application for Federal grant money to fund them. Second, Amherst's assessment for the Amherst-Pelham Regional School District budget increased by only 2.15% (instead of 2.7%) because the Regional School Committee and Superintendent lowered their assessment request in order to keep assessments within ranges that all communities could afford, particularly the three smaller communities in the region. Third, due to a state-mandated change in the accounting method for choice-out tuition and charter school assessments and because the School Committee and Superintendent voluntarily reduced their budget allocation request by \$100,000, the actual dollar amount appropriated for the elementary schools decreased from FY 14; however, the elementary school budget effectively increased by 2.2%.

Property tax revenue is predictable since, without an override, it can increase by only 2.5% plus any additional taxation generated by new growth. The second largest source of revenue is from state aid, mostly Chapter 70 funding for education and Unrestricted General Government Aid. As we developed our budget recommendation for Town Meeting, we initially assumed that there would be a 1.0% increase in state aid from the previous year. By the time of the Annual Town Meeting, the state Senate and the House of Representatives had approved a continuing resolution promising a 1.9% increase in state aid to Amherst.

### **Reserves**

The Town has been spending reserves to support operating budgets, in varying amounts, from FY 02 through FY 14. For the FY 14 budget, the 2013 Annual Town Meeting voted to use \$90,000 from Free Cash to fund social services activities and another \$30,000 as the 50% share of the cost of a town-gown study with the University of Massachusetts. Fall (2013) Town Meeting appropriated from Free Cash \$156,118 in Medicare D reimbursements to the Town of Amherst's Other Post Employment Benefits (OPEB) Trust, the Town of Pelham, and the Amherst-Pelham Regional School District, in proportion to their number of retirees receiving the benefit. (In addition, \$1,326,223 was transferred from Free Cash to the Stabilization Fund, but this was a transfer between the two components of reserves and did not reduce the total.) The Department of Revenue certified Free Cash at the end of FY 14 at \$4,860,062. That plus the Stabilization Fund (\$4,292,283) meant that on June 30, 2014, the end of FY 14, total reserves were \$9,152,345, representing 13.1% of general fund operating revenues.

The section of the Finance Committee's 2008 Financial Management Policies and Objectives regarding reserves states "reserves, including the combined balance of Free Cash and Stabilization Fund, should be maintained at 5-15% of general fund operating revenues. The primary objective of the Town's reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses." This goal is a widely accepted measure of good financial standing and a key factor in Amherst's bond rating

### **Fiscal Year 2014 Reserve Fund Transfer**

The Reserve Fund is used by the Finance Committee to cover extraordinary or unforeseen expenses of the Town. An amount is appropriated at each Annual Town Meeting for this purpose. As in most years, the regular appropriation for FY 14 was \$100,000. In addition, the 2014 Annual Town Meeting transferred \$167,028 from Overlay Surplus to the FY 14 Reserve Fund. When the Committee met on July 10, 2014, we voted to transfer \$110,000 from the Reserve Fund to the Department of Public Works functional area budget to make up for a deficit in the Snow and Ice removal budget. That meant that \$150,028 was returned to the Undesignated Fund Balance at the end of FY 14 and became Free Cash.

### **Other Post-employment Benefits (OPEB)**

The Finance Committee recommended that the 2013 Fall Special Town Meeting appropriate \$156,118 to the OPEB Trust from Medicare Part D reimbursements. Town Meeting made that appropriation as recommended. The 2014 Annual Town Meeting appropriated \$100,000 from the FY 15 budget as the

first annual appropriation from the General Fund to the OPEB Trust Fund, as we had recommended. Budget allocations totaling \$300,000 within Water and Sewer Enterprise Funds were also made to the OPEB Trust Fund. The OPEB Trust was established at the 2010 Fall Special Town Meeting to enable the Town to hold funds to meet the large unfunded future obligation to provide health insurance for retirees. As of June 2012 the Town's OPEB liability was \$93.7 million.

### **Meetings**

The Committee held 22 meetings during the year, including a combined meeting with the Select Board, School Committee and Jones Library Trustees, and meetings with the Amherst Select Board, Amherst School Committee, and representatives from the other three Regional School District towns (Pelham, Leverett, and Shutesbury).

### **Members of the Committee**

Members who served diligently and with great thoughtfulness were Andrew Steinberg (Chair), Kay Moran (Vice-Chair), Janice Ratner, Anurag Sharma, Douglas Slaughter, Sarah Swartz, and Marylou Theilman. Upon being elected to the Select Board in late March, Mr. Steinberg resigned from the Finance Committee. Ms. Swartz resigned in May for personal reasons. New members appointed as of July 1, 2014, are Stephen Braun and Bernard Kubiak.

### **Thanks**

The Committee required a great deal of staff support to gather information and to present it to Town Meeting. Sanford Pooler gave us invaluable support as Finance Director. He and the staff of the Finance Department provided necessary information about the Town's financial history and current situation. He contributed knowledge, experience, perspective, analysis and advice. Financial Analyst Maria Racca organized information for us and also produced our reports, usually under acute deadline pressure. Comptroller Sonia Aldrich provided timely, accurate and informative reports about town revenues and expenses which enabled us to monitor the Town's financial performance as it operated on budgets adopted by the Town Meeting.

We rely on assistance of the Town Manager's office staff to help organize our operation. The committee's review and evaluation of the various parts of the Town's budget depends on the assistance of the Town Manager, School Superintendent, Library Director and members of their staffs, along with department heads and other staff responsible for municipal services.

Contributions of the Select Board, School Committee and Jones Library Trustees are essential to arriving at an acceptable budget to recommend to Town Meeting. We thank them all for their generous assistance.

We are committed to organizing and presenting financial information to Town Meeting members to assist them in carrying out their duty to determine spending policies and appropriate funding for Town, School, Library and capital needs of the Town. We appreciate the comments and guidance they give us, both as individual members and as a group, the appropriating authority of the Town.

Kay Moran, Chair